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RANDAL G. HARRIS
LAND MANAGER

May 27, 1997

Mr. David S. Guzy
Chief, Rules and Procedures
Minerals Management Service
Royalty Management Program
P.O. Box 25165, Mail Stop 3101
Denver, CO 80225-0165



RE: Notice of Proposed Rulemaking on Establishing Oil Value for Royalty Due on Federal Leases and on Sale of Federal Oil 62 F.R. 3742, published January 24, 1997.

Dear Mr. Guzy:

Western Production Company (Western), a producer and explorer of oil and gas on Federal Leases, is pleased to have the opportunity to participate in the proposed rulemaking for Establishing Oil Value for Royalty due on Federal Leases and on the Sale of Federal Royalty Oil.

Western is very concerned over this proposal, which would utilize "NYMEX" pricing as the basis for determining the value of crude oil in virtually all areas, in particular the Rocky Mountains. (Note ANS is proposed as the basis to value crude oil on the West Coast). The proposed rulemaking goes further to establish definitions which would prohibit companies from valuing oil using traditional "arms-length transactions" because they may have used exchanges, buy/sell agreements and calls on production.

Western is convinced that relying on a national index (NYMEX) to value crude oil at the well head will completely diminish the reliability of the "real" value of the crude oil and most certainly will overstate the value of these barrels. Consideration for the time and place of the sale, specific grade and quality, transportation, and a number of other factors are then excluded or not given their proper impact on the value. As a result, an artificial, incorrect value is determined and used instead of the marketplace.

In addition to Western's own assessment of the proposed rulemaking, information has been furnished to Western by several trade associations regarding the data and the analyses that were used by the MMS in forming these proposals. Western refers you to the comments of the Rocky Mountain Oil & Gas Association whereby its suggested that the MMS processes which were used in forming these proposals are seriously flawed. Much more information and evaluation time is needed to fully and accurately make recommendations for change, if change is even needed at all.

Having questioned the validity of the MMS proposal, certain additional concerns come to mind. There has been insufficient analyses demonstrated by the MMS regarding the costs and the impact to companies

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trying to account for this proposed "non-market" valuation of crude oil. Computer software and industry accounting methods will not be able to accommodate this change without significant costs. For example, in a producing unit that has Federal, State and Fee leases, allocating royalty proceeds back to each owner, using a non-market price for the MMS and actual proceeds received (market value) for the other owners would be impossible to handle under Western's current computerized accounting system, and most probably impossible for any other companies to account for without significant and costly programming. There would also be a need to handle more information regarding the indices, grade, quality, transportation and other factors necessitating more accounting time and potentially more personnel.

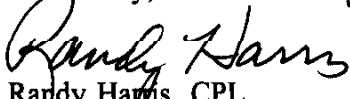
In addition, an operator under the foregoing example would be subject to litigation by all other mineral owners to pay them according to the Federally dictated "non-market" value, regardless of what was actually received by the operator/producer.

The proposed rulemaking leaves much to be desired regarding a free market system. Its benefits are severely in the direction of the Federal government at the cost and risk of many different segments of the oil and gas industry and the private sector. The definition of market value in any business endeavor originates from the age old adage that; commercial economic activity occurs when buyers and sellers come together and each are ready, willing and able to transact a sale in the open market where the forces of supply and demand affect price. To suggest that a national index, however adjusted, can better reflect the actual market value of crude oil at the local, well head level is contrary to this practice and the very economic principles for which this country was founded.

A recommendation has been suggested by many of my colleagues and certainly it has been proposed to you under prior responses. It encompasses a more simplified solution whereby the MMS would take its royalty share of crude oil production in kind. To avoid being overly redundant with this concept, suffice it to say that a program which allows the MMS to take its share of crude oil in kind and market same for its own account greatly evens the playing field, does away with mistrust, allows the MMS to recognize the viability of the market place, gives the government the same opportunities as anyone else in the industry and greatly simplifies even the now existing system. This approach would save costs for the government and the private sector.

In conclusion, Western believes that the current system of willing buyers and sellers transacting open market, arms-length transactions at the well head serves the government and industry well. When problem situations are detected, a better utilization of our country's resources would be to directly engage the problem areas instead of re-vamping an entire system that appears to be working quite well. In the alternative, Western and the oil and gas industry would certainly welcome your election to take your crude oil in-kind. Please give these comments and suggestions your serious consideration.

Yours truly,


Randy Harris, CPL
Land Manager

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xc: David Emery - Vice President, Western Production Company
Perry Krush - Accounting Manager, Western Production Company
U.S. Senator Craig Thomas
U.S. Senator Mike Enzi
U.S. Representative Barbara Cubin
Wyoming Governor Jim Geringer
Wyoming State Land Director, James H. Magagna
Wyoming State Land Deputy Director, D. Steven Degenfelder
State of Wyoming Federal Policy Director, Paul Kruse
Wyoming State Land - Mineral Leasing & Royalty Compliance, Harold D. Kemp